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Government Affairs Director

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December 11, 1998

Magalie Roman Salas, Secretary
Federal Communications Commission
445 Twelfth Street, SW Room TWB-204
Washington, D.C. 20554

Re:CC Docket No. 94-129 Unauthorized Change of Consumer Long Distance Carrier

Dear Ms. Salas:

The attached informational data concerning CC Docket 94-129 was provided to Anita Cheng, attorney, Common Carrier Bureau; Thomas Power, Office of Chairman Kennard; James Casserly, Office of Commissioner Ness; Linda Kinney, Office of Commissioner Ness; Kyle Dixon, Office of Commissioner Powell; Kevin Martin, Office of Commissioner Furchtgoth-Roth; and Paul Gallant, Office of Commissioner Tristani. The documentation underscores the urgent need for the creation of a neutral third party administrator for PIC changes

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

Attachment

cc: Thomas Power
James Casserly
Linda Kinney
Kyle Dixon
Kevin Martin
Paul Gallant
Anita Cheng

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# A Neutral Third Party Should Administer A Database That Empowers All Carriers To Handle The Carrier Selection and PIC Protection Needs of Their Customers

Submitted By AT&T Corp.
December 10, 1998

## A Neutral Third Party Should Administer A Database That Empowers All Carriers To Handle The Carrier Selection and PIC Protection Needs of Their Customers

For the past several years, the FCC and other regulators have sought to combat the unlawful practice of slamming customers from their carrier of choice to other carriers. Initially, slamming was principally a problem for long distance customers, but it has spread to regional toll carrier choices as competition has given many customers a choice of regional toll carriers. Unfortunately, the industry and regulators will also have to be prepared to combat slamming of customers' local exchange service carrier choices when competition comes to local exchange markets.

To address slamming at its structural root cause, AT&T believes that one must look not only at how to catch and punish the "bad actors" who slam, but also address the industry structure and practices that facilitate slamming. A structure that empowers EVERY carrier and customer to handle PIC administration issues and implement PIC freezes is one that that would give carriers and customers alike the tools to combat slamming. The current structure which puts all information about, and power over, PIC changes and "PIC Protections" in the control of domineering competitors – the LECs – is a design for disaster.

Local telephone companies today:

> administer carrier selections by taking orders from customers who want to choose their local, intraLATA and/or interLATA carrier;
>
> implement virtually all residential customer carrier selections for local, intraLATA or interLATA service in local switches;
>
> direct residential customers who believe they have been slammed with respect to their interstate, local toll, or local service;
>
> decide when and how to offer "PIC Protection" or "PIC Freeze" programs to customers; and
>
> adjudicate carrier selection disputes by choosing when to reassign a customer as a result of a PIC Dispute and choosing when to charge the alleged "slammer" for that reassignment.

As telecommunications competition is introduced in local markets, local telephone companies can no longer neutrally handle such carrier selection matters that affect their potential competitors.

**The Problem**

Slamming is able to occur for wireline telephony service in large part because the administration and control of a customer's choice of Primary Interexchange Carrier ("PIC") historically has been entirely divorced from the very interexchange carriers who serve this market. Instead, PIC changes and PIC Protection plans have historically been administered by local exchange carriers ("LECs") who control the physical implementation of the PIC choice in the local telephone switch. There is no reason today, however, to link the physical implementation of a PIC choice with a carrier's ability to handle a customer's request for a PIC change or for PIC Protection.

Under the present system, an interexchange carrier has NO ability to verify that a lost customer was a legitimate PIC change, has NO ability to offer effective PIC Protection to its customers, and has almost NO ability to take actions against slammers. AT&T and its customers are the victims of at least 500,000 slams each year. (This estimate is based on the numbers of customers who have their PICs switched back to AT&T after complaining to the LECs that they were slammed away from AT&T.) Despite this tremendous number of slams, the LECs who administer the PIC process today refuse to tell AT&T which carriers slammed these customers. They have no interest in helping AT&T prevent slams. The only approaches the LECs are willing to support are PIC Protection devices that force customers to contact the LEC for implementation, thereby giving the LECs additional marketing opportunities.

The local exchange carriers' roles as absolute controllers of PIC changes, PIC Protection programs and PIC disputes cannot survive as the LECs become competitors served by the very PIC administration system they dominate today. They are no longer neutral administrators. In almost every LEC territory, a PIC Protection may only be implemented if the customer requests the PIC Protection directly from the LEC. Similarly, a PIC change on an account that has PIC Protection can often only be processed if the customer requests the change directly from the LEC.

This process of having only LECs administer PICs is like forcing every customer who decides to buy a Ford to double-check with a GM dealer before the customer is allowed actually to buy the Ford. Such a procedure would tilt the competitive balance toward GM unfairly by making it easier to do business with GM dealers and by giving GM dealers one last shot at marketing to customers who planned to buy Fords. No rules designed to ensure that all GM dealers act "fairly" could eliminate the competitive imbalance such a system would create.

Similarly, no regulations designed to ensure evenhanded administration of PICs and PIC Protection programs have proven able to prevent LEC abuses. As shown on Exhibit A to this submission, LECs have repeatedly been rebuked by

state regulators for abusing PIC Protection programs in violation of state regulations. For example, despite clear rules and decisions that LEC marketing during three-way calls to process PIC changes for "protected" accounts, LECs like Ameritech and Bell Atlantic have continued as a matter of policy to market regional toll services to customers during such calls. These are not just a few rogue customer service representatives. Despite the Michigan rule against marketing on such calls, Ameritech decided that it was allowed to ask customers "whether they would be getting a less expensive rate from MCI" and to discuss the "ramifications of changing service providers". This, of course, is marketing and that is what the Michigan PUC ruled. See Exhibit A.

The current LEC-dominated PIC administration process is not only headed for waves of potential litigation as competitors battle LEC abuses, but also for anarchy as struggling competitors implement disparate and inconsistent "work-around" solutions to the LEC domination of PIC issues. For example, Tel-Save (operating as AOL Long Distance) has its customers agree that they "authorize Tel-Save, as my agent, to monitor my account and take any action necessary to ensure that it remains my carrier until such time as I have revoked this agency in writing." It has just come to AT&T's attention that Tel-Save may be implementing this provision by automatically switching back to Tel-Save customers who switch their PICs to other carriers without first notifying Tel-Save in writing. Under this approach, the lack of a centralized process and data base means that no carrier can determine what PIC protections are in effect for a given customer. Even if a new carrier follows FCC-approved procedures for implementing a PIC change, Tel-Save may switch the out-PICing customer right back to AOL Long Distance. The result is a "ping ponging" of customers between carriers unless the customer is adequately informed about and follows the Tel-Save-prescribed procedure for terminating service.

AT&T supports the right of all carriers to implement PIC protections, although in this particular example we are extremely troubled by Tel-Save's failure to get clear, informed customer consent for its actions. More fundamentally, if all interexchange carriers implement work-around PIC protection plans that are not consistent across the industry, it would lead to much greater customer confusion and dissatisfaction than even today's slamming complaints are generating.

**The Need For Immediate FCC Action**

Is there time to ask the "industry" to study these PIC administration problems, then recommend action to the Commission, which in turn could propose new rules? Absolutely not! First, the industry will never reach a consensus without Commission leadership because the LECs have no interest in modifying a process that gives them control over several chokepoints in the provision of service to customers (PIC Protection programs, PIC changes, etc.). Second, the LECs will soon become interexchange competitors, at which time we would see

the LECs move quickly to extend their local dominance to interexchange services. Any process that gives the LECs the added leverage of PIC administration dominance during this critical transitional period in the industry could impede competition for years to come.

**A Neutral Third Party Proposal**

A neutral third party should now be used to administer a database facilitating ALL carrier selection changes and PIC Protection programs for ALL telecommunications services (exchange service, intraLATA toll, interLATA toll). The goal is not to create a neutral third party that becomes the World's largest customer call-in center. Instead, the neutral third party should administer the database of customer PIC selections, customer PIC Protection selections and customer security measures so that ANY legitimate carrier can:

- institute or remove PIC Protections;
- implement PIC changes; or
- rectify PIC assignment mistakes or slams.

This database would empower all carriers to meet the needs of their customers. Customers would never interact directly with the neutral third party, just as 800 service customers today do not interact directly with the administrator of the 800 number database.

How Would a Neutral Third Party System Work?

There a number of analogs for setting up a third party to facilitate greater customer security and growing competition: e.g., the 800 number portability and local number portability systems. As was done in these analogous contexts, the telecommunications industry should set up, fund and control a neutral third party to administer a PIC database under guidelines established by the FCC.

The neutral third party would receive from carriers and process all customer requests for a carrier selection change or a carrier selection protections. The LECs' continued technical role would be simply to implement required changes in local networks upon receipt of a direction from the neutral third party. As competitors, the LECs would submit PIC administration data to the neutral third party just like all other carriers.

In addition to empowering all carriers to handle PIC-related matters, a neutral third party could implement basic security measures to guard against slamming and similar abuses. For example, basic security measures similar to those followed when consumers sign up for Internet access or e-mail accounts could

be implemented. When a customer first establishes a new telephone account the customer could be switched to a third party verification ("TPV") firm who would confirm the customer's choice and ask the customer to give the answer to a security question (e.g., What is your pet's name?). The TPV firm could then transmit the customer's security question answer to the neutral third party who would maintain that data in addition to the customer's PIC status information. Later changes to the customer's account could then be confirmed by using this security data.

The third neutral party structure should not result in any additional costs for end users because its functions are performed today by LECs who charge for carrier selection changes. Indeed, the neutral third party database should lower costs for the industry (and therefore prices for customers). With the proposed database approach, interexchange carriers would not incur the cost of successfully marketing to customers only to find that PIC change requests are not processed due to PIC Protection in effect for the customers' accounts. Instead, carriers could find out from the database that PIC Protections are in place and follow specified procedures for processing the PIC change through the PIC Protection measures.

Exhibit B to this submission provides an example of how the neutral third party process could work effectively. The purpose of this example is to illustrate one approach to interacting with the neutral third party. We are not proposing that this example is the only effective approach to implementing a neutral third party database.

**Interim Measures**

In the interim before a neutral third party system is installed, the Commission should severely restrict the ability of LECs to abuse their carrier selection and PIC Protection roles to disadvantage competitive carriers. Specifically, the following interim measures should be implemented:

- The carrier selection and freeze functions should be walled off from any LEC marketing functions.

- The LECs' competitors should be granted capabilities equal to those of the LEC and its subsidiaries to change, freeze and unfreeze customer PICs.

- ILECs should not be allowed to freeze customers' local or intraLATA toll choices until after it has been determined that the relevant market is fully competitive.

**Exhibit A**

# LEC PIC Administration and Customer Data Abuse Examples

## ILEC "PIC Dispute" Stonewall

- Every day, thousands of customers tell their LEC they were slammed and request reassignment to their carrier of choice.

- In 1998 (through October), at least 400,333 AT&T consumer customers who had been slammed away by other carriers, were returned to AT&T through the LEC-controlled PIC dispute process.

- The ILECs stone-wall AT&T and flatly refuse to tell us the identities of the carriers who apparently conducted these slams.

- NYNEX (now Bell Atlantic) refuses even to disclose to AT&T when it is returning a slammed customer to us. We have no data for the NYNEX region. NYNEX simply assigns the customer PIC back to AT&T and will not tell us whether the PIC resulted from an ordinary customer carrier selection or from the correction of a slam.

## Bell Atlantic – The Maryland WorldCom Slam

- In November 1997, WorldCom slammed 53,000 Maryland residents to itself by sending the wrong customer tape to Bell Atlantic. More than half of these were AT&T customers.

- WorldCom was unable to remedy its error because WorldCom had no list of the proper carrier for each slammed customer and no technical ability to switch back the customers' PICs.

- When made aware of the error, Bell Atlantic flatly refused to switch the customers automatically back to their proper carriers. We suspect that Bell Atlantic decided to exploit its control over PIC administration and improperly transform this WorldCom mistake into a Bell Atlantic "marketing opportunity." Bell Atlantic sent the affected customers a form letter stating that they had been switched and that they must call Bell Atlantic if they desired to be switched back to their carrier of choice. By this tactic, Bell Atlantic may have sought to gain an opportunity to market its other services such as intraLATA toll service to these customers based upon its control of PIC administration. In all events, Bell Atlantic likely knew that competitors like AT&T would suffer

the loss of their victimized customers because most of these form letters would not even be read by customers, let alone acted upon.

- Only after weeks of unsuccessful efforts to convince Bell Atlantic to cooperate, was AT&T able to figure out how to get some of its customers back to their carrier of choice. AT&T obtained a list of ALL of the slammed customers from WorldCom and compared that list to AT&T's customer databases to determine which AT&T customers still needed to be switched back to AT&T. AT&T then submitted these customers to Bell Atlantic as PIC change requests. As a result of Bell Atlantic's intransigence, AT&T's wronged residential customers were not switched back until just before Christmas, even though the slam occurred before Thanksgiving. Bell Atlantic's delay thus gave it an improper marketing opportunity for those customers who responded to the Bell Atlantic form letter.

- AT&T sought to recover compensation for its lost customers and lost revenue from WorldCom, but we have been unsuccessful in negotiations to date.

**BellSouth Cover-up**

- In August/September of 1997, BellSouth slammed to itself 2000 AT&T intraLATA toll customers. These customers were located in Georgia, Florida, and Kentucky.

- On about September 18, BellSouth contacted AT&T and told us that it had slammed 2000 AT&T intraLATA customers as a result of a "programming error", which had been corrected on the same day that it occurred. BellSouth also told us that it had switched our customers back within a day and that it would reimburse AT&T for the revenue lost.

- AT&T discovered later that its customers had been slammed beginning on August 21, 1997 and the slamming had continued through September 10, 1997. BellSouth never notified customers that the slam had occurred and delayed for at least eight days after the incident was uncovered before even notifying AT&T.

- BellSouth later abruptly revoked its offer to reimburse AT&T for lost revenues and demanded that AT&T agree to a confidentiality provision that would prevent AT&T from revealing this incident in regulatory proceedings. Because AT&T refused to agree to this highly improper BellSouth confidentiality demand, BellSouth refused to reimburse AT&T.

**ILEC Refusals To Allow Their Competitors To Implement PIC Protect Programs**

- The ILECs are defending their monopoly control over PIC administration issues by refusing to allow any other carriers to solicit PIC Protect decisions from customers.

- AT&T Trial: Between July 1, 1998 and August 12, 1998, AT&T conducted a trial in which it asked its customers if they wanted PIC Protections. These requests were made by the third party verifiers who were verifying the customers' PIC change decisions.

- AT&T then sent 303,452 customer requests for PIC Protection to the following ILECs: Ameritech, BellSouth, Bell Atlantic, GTE, SBC, SNET and US West.

- Every single LEC to which the requests were submitted refused to implement a single PIC Protect request submitted by AT&T.

**Pacific Bell Theft of AT&T Customer Data**

- Pacific Bell's recent theft of LD carrier customer billing data is not a PIC administration action, but it confirms again that the LECs are not neutral third parties and feel legally unconstrained as they abuse their position to gain competitive advantages.

- AT&T provided data to Pacific Bell so that Pacific Bell could bill customers on its behalf. Pacific Bell used this AT&T billing database to identify and target potential high value customers for Pacifio Bell marketing efforts.

- In AT&T Communications v. Pacific Bell, No. C96-1691 CRB (N.D. Cal. April 6, 1998), the federal district court ruled that Pacific Bell had unlawfully misappropriated AT&T's trade secrets by its actions.

**Bell Atlantic -- PIC Freeze Abuses**

Earlier this year, AT&T submitted to the FCC a listing of specific abuses by Bell Atlantic (then NYNEX) during a two-month period in 1997. The abuses occurred during three-way calls involving customers, AT&T and Bell Atlantic for the purpose of unfreezing customer accounts and allowing a PIC change to AT&T for intraLATA toll calling. Abuse of the PIC Administration process resulted despite a prior and explicit New York PSC order that barred this ILEC from marketing during such calls and requiring it to facilitate three-way calls.

Examples include:

- "LEC rep told customer that NYNEX also offered $.06 per minute and apologized to the customer for charging her $.12 per minute. LEC rep said she would go ahead and make the change [in NYNEX plans]; there was no need for the customer to switch to AT&T. Customer did not switch."

- "LEC rep offered an unlimited local and regional calling plan. Customer accepted it and did not switch."

- "Called NYNEX to switch LD service. . . . [NYNEX] Rep told customer he would be billed twice for his regional calls."

- "LEC refused to switch regional and LD even though customer gave SS#. LEC told customer he would have to put it in writing and gave him an address to write."

- "LEC rep asked me to drop off the line – when I asked why she giggled and said she doesn't need me on the line to discuss customer account. I asked if she would process it – she said of course if that's what the customer wants."

- "LEC rep offered $0.05 per minute – said AT&T rates were higher than NYNEX."

- "LEC rep verified that customer wanted to switch regional calls. Customer said yes. . . . [LEC rep] said he wouldn't benefit from switch. Customer did not switch."

- "LEC rep said they were instructed not to talk to customer with AT&T on the line. Rep ended the call and said she would call the customer back to switch."

- "LEC Rep (Mrs. Parker) told customer she must send letter because she has a freeze on her account."

- "LEC rep (Mrs. Carlton) said NYNEX had a conflict with AT&T so the customer would have to call back himself."

**Ameritech's PIC Freeze Abuses**

In violation of PUC orders, Ameritech sent misleading PIC Freeze solicitations to customers in late 1995 and early 1996 throughout its region. It sought to mislead customers into freezing intraLATA toll PICs before Ameritech faced new competition. In Michigan, for example, the PSC has had to issue two explicit orders against Ameritech over the last two years in an effort to force Ameritech to stop its blatant abuses. In a third decision, released this September, the PSC concluded that "rather than abide by the terms of those orders and provide PIC protection in a competitively neutral manner" Ameritech opted to shut down its PIC Protection option.

**Example No 1 -- Michigan:**

**Michigan PSC in Sprint v. Ameritech Michigan, Case No. U-11038 (Aug. 1, 1996)(the "1996 Order"):**

The Michigan PSC found that Ameritech Michigan's December 1995 bill insert violated both the Act and prior Commission orders. Specifically, the PSC concluded that the insert was "**deceptive and misleading**" because it failed to inform customers that the PIC freeze would apply to all of a customer's services, including intraLATA and local exchange services. 1996 Order, p. 5. The PSC ordered Ameritech Michigan also to permit verification to override freezes through a number of methods, including three-way conference calls and held that "if a customer with PIC protection calls to change providers, Ameritech Michigan shall not use that contact to try to persuade the customer not to change providers." Id., p. 22.

**MCI v. Ameritech Michigan, Case No. U-11550 (May 11, 1998):**

PSC found that Ameritech Michigan had violated the 1996 Order from the outset and ordered it to cease and desist from further violations:

PSC found that Ameritech had violated the 1996 Order by refusing to process valid PIC changes cleared through authorized methods, instead requiring three-way verification calls before processing PIC changes to

frozen lines. The reason for this unlawful tactic is apparent, because the PSC also found that Ameritech Michigan reps were improperly using three-way verification calls to dissuade customers from leaving Ameritech Michigan's intraLATA service. The PSC found that Ameritech Michigan reps made "these three-way calls an unpleasant and difficult experience" by "**hanging up, putting parties on hold for unreasonable periods, or pressuring customers not to change carriers**" and blatantly marketed their services "each time they (1) asked customers whether they would be getting a less expensive rate from MCI, (2) discussed the customers' existing service plan or calling pattern, (3) inquired about whether the customers wanted additional services, (4) talked about the ramifications of changing service providers, and (5) mentioned any information contained in the customers' billing records beyond that needed to confirm the customers' respective identities."

**Proceeding to determine procedures to ensure that an end user of a telecommunications provider is not switched to another provider without the authorization of the end user, Case No. U-11757 (Sept. 23, 1998):**

In its September rulemaking decision on slamming and marketing issues, the PSC found:

"[R]ather than abide by the terms of those orders and provide PIC protection in a competitively neutral manner, Ameritech Michigan initiated a public relations campaign designed to increase customer anxiety about the potential for slamming. Ameritech Michigan's campaign included, among other things, its unilateral decision to cease providing PIC protection to any of its customers after May 31, 1998 and its election to spread (through the use of bill inserts and newspaper advertisements) deceptive accounts of both its actions and those of the Commission. The apparent goal of that campaign was to pressure the Legislature and the Commission into allowing Ameritech Michigan to implement PIC protection on its own, albeit anticompetitive, terms."

**Example No. 2-- Illinois**

**MCI Telecommunications Corporation v. Illinois Bell Telephone Company, ICC Docket Nos. 96-0075/0084, Order (April 3, 1996):**

ICC determined that the bill insert was anticompetitive and misleading because the language of the bill insert was designed to mislead consumers into thinking that their long distance/interLATA/interMSA PIC was the only choice being frozen. In fact, Ameritech was freezing the

consumer's local, intraMSA/intraLATA and interMSA/interLATA PICs. The order specifically stated: "During telephone calls for the purpose of changing the customer's intraLATA PIC to another carrier, Respondent (Ameritech) should not attempt to retain the customer's account during the process."

**MCI Telecommunications Corporation v. Illinois Bell Telephone Company, d/b/a Ameritech Illinois, ICC Docket No. 97-0540 (December 17, 1997):**

ICC upheld an MCI complaint that Ameritech representatives were using the three way calls as an opportunity to attempt to retain customers, to question their selection of providers, to make switching their intraLATA provider via the three way call unpleasant or difficult, and to attempt to sell unrelated Ameritech products and services. The ICC found that "**inappropriate marketing on the part of the Ameritech representatives" and found that "Ameritech Illinois' instructions to its representatives . . . represented a knowing use of three-way calls as an opportunity to retain customers in violations of Section 13-514 [of the Illinois Public Utilities Act].** The cited conduct is a barrier for customers wishing to trade carriers, and thereby is anti-competitive." Further the order finds that "There is no question that the conduct of Ameritech representatives during three-way calls cited by MCI impedes the ability of carriers like MCI to fairly and efficiently compete for local toll customers in Illinois. As the three-way call summaries bear out, such conduct is in addition to Ameritech Illinois' inappropriate attempts to retain customers' accounts for local toll service. **The cumulative effect of the conduct is to make switching to a competitive carrier via a three-way call an unpleasant and difficult experience."**

**SNET's PIC Freeze Abuses**

- In 1995 and 1996, SNET was soliciting PIC Freeze orders only from customers who selected SNET for their LD service.
- SNET was also marketing its services to customers who call SNET to request a PIC change to another LD carrier that is subject to a SNET PIC freeze.
- AT&T "reject" rates for PIC changes submitted to SNET increased from 3.9% in January 1995 to 21.5% in July 1996.
- AT&T and SNET are now in litigation about this SNET conduct.

**Exhibit B**

## Detailed Neutral Third Party Process Example

The Neutral Third Party could be modeled on the 800 number portability database process, which has worked well.

Under this model, end user customers would not interact directly with the Neutral Third Party. Instead, carriers would interact with the Neutral Third Party.

The Neutral Third Party could maintain three categories of customer records:

1. Customer identification and security data (e.g., customer answer to "security question such as "What is your pet's name?").

2. Customer PIC status

3. Customer PIC Protection status.

The Neutral Third Party database would transmit all requests for changes in PIC or PIC Protection status from the requesting carrier to the implementing LEC.

### Example Procedure

Customer A Initiates Service

Step 1 -- Customer A calls Bell Atlantic to initiate service at a new residence. Bell Atlantic takes the customer's request, including, for example, an interLATA toll PIC Protection request, and third party verifies it. For example, the customer may choose Bell Atlantic for local and intraLATA toll and MCI for interLATA toll. The third party verification vendor (TPV firm) verifies the customer request.

Step 2 – The TPV firm follows a security procedure specified by the neutral third party – e.g., has customer answer a security question or create a password. The TPV Firm transfers the customer's PIC choices, PIC Protection status and security question answer or password to the neutral third party and the TPV firm does not retain that security information.

Step 3 – The neutral third party retains the customer's PIC, PIC Protection and security information.

Customer A Changes IntraLATA Carriers

Step 1 – Customer A asks AT&T to switch the customer's intraLATA service from Bell Atlantic to AT&T.

Step 2 -- AT&T queries the neutral third party and determines that there is no PIC Protection on Customer A's intraLATA toll choice and also determines the customer's security question.

Step 3 – AT&T obtains from the customer the answer to the security question.

Step 4 – The customer's PIC change request is third-party-verified.

Step 5 – AT&T submits the PIC change to the neutral third party, together with the customer's security question answer.

Step 6 – The neutral third party transmits the PIC change request to Bell Atlantic for implementation (or gives AT&T an approval code that can be transmitted by AT&T with the PIC change request to the LEC).